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INTELLIGENCE BRIEF

RECENT SOVIET PURCHASES
OF CANADIAN AND ARGENTINE WHEAT

DIRECTORATE OF INTELLIGENCE
Office of Research and Reports

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RECENT SOVIET PURCHASES
OF CANADIAN AND ARGENTINE WHEAT

Within the past week the USSR has made commitments to purchase almost 7 million metric tons (mt) of wheat and flour from Canada and Argentina. On 11 August the Canadian Wheat Board announced the sale of 5.1 million mt of wheat and flour to the USSR. This is in addition to the Soviet purchase, announced on 5 August, of 735,000 mt of Canadian wheat and flour. On 10 August the Argentine Grain Board also announced the sale of 1.1 million tons of wheat to the USSR.

These purchases reflect the poor spring wheat crop in the "new lands," which are suffering from a drought almost as severe as that in 1963. Further wheat purchases may be required, depending on the final outcome of the 1965 harvest. However, Soviet wheat imports this year are unlikely to reach the level of those following the very poor 1963 harvest (more than 11 million mt). The projected shortfall in the Soviet wheat harvest also means that Eastern Europe once again must depend on the Free World for most of its grain imports.

The estimated cost of these recent purchases is almost US \$500 million. Canadian officials have valued the two recent sales to the USSR at about US \$420 million (Canadian \$450 million), and the Argentine deal is estimated at about US \$60 million. These recent deals may well reduce the Soviet gold reserves below the 1964 level of US \$1.5 billion. The new purchases of wheat may also cause a reduction in the volume of Soviet orders for certain kinds of Western industrial equipment.

1. New Canadian and Argentine Wheat Sales to the USSR

The Canadian Wheat Board on 11 August 1965 announced the sale of 5.1 million mt of wheat (including 400,000 mt in the form of flour). This is in addition to the Soviet purchase from Canada, announced on 5 August, of 735,000 mt of wheat (including about 25,000 mt in the form of flour). The two Canadian sales, totaling some 5.8 million mt, approach the record Soviet purchase from Canada of almost 7 million mt of wheat and flour following the disastrous Soviet wheat harvest of 1963.

In addition, on 10 August, the Argentine Wheat Board announced the sale of 1.1 million mt of wheat to the USSR. Earlier in May 1965 the USSR had contracted for 1 million mt of Argentine wheat, part of which is to be paid for by Soviet petroleum.

Should the USSR wish to purchase additional grain, sources other than Canada and Argentina may have to be tapped in view of reports that port facilities in these countries will be taxed to move the grain now committed for export.

2. Soviet Wheat Situation

Soviet wheat production in 1965 is tentatively estimated at some 10 to 20 percent below the level of 58 million mt estimated for 1964. For the most part, this decline reflects the poor wheat crop in the "new lands," which are suffering from a drought almost as severe as that in 1963. Moreover, harvesting operations in some of the other wheat-producing areas have been hampered by excessive rainfall, which has resulted in abnormally high losses plus some reduction in the quality of the grain.

The new Canadian and Argentine purchases were foreshadowed in a statement by the USSR Minister of Agriculture, Matskevich, to Ambassador Harriman that the USSR probably would buy more wheat this year than last. In the crop year 1964/65 (1 July-30 June) the USSR contracted for about 3.5 million mt from the Free World (see the table), but some of the contracts call for deliveries in the 1965/66 crop year. Additional wheat purchases may be required, depending on the final outcome of the 1965 harvest. However, Soviet wheat imports probably will not be as great as in 1963/64, when 11.4 million mt were imported from the Free World. Unlike 1963, when production of all crops, except cotton, suffered from the drought, fairly good crops of potatoes, vegetables, sugar beets, and sunflowers are in prospect this year. Also, the production of livestock products could increase substantially because of the good supply of livestock feed carried over from the 1964 harvest.

The 1965 grain harvest in the Eastern European Communist countries is tentatively estimated to be below the level of 1964, and imports of 9 million to 10 million mt will be required in the current crop year. The projected shortfall in the Soviet wheat harvest will mean that Eastern Europe once again must depend on the Free World for most of its grain imports. Just as in 1963, it seems likely that the USSR will be reluctant to expend hard currency to purchase a significant quantity of grain for Eastern Europe.

3. Impact on Soviet Gold and Foreign Exchange Reserves

Following the 1963 grain disaster, the USSR purchased 11.4 million mt of wheat valued at US \$830 million from the West in the crop year 1963/64. This unprecedented outlay led to a sharp reduction in Soviet gold reserves, which by the end of 1964 stood at an estimated US \$1.5 billion, down from US \$2.2 billion at the end of 1962. Since 1963 the USSR has been holding down imports of Western equipment and materials, and has been generating export surpluses with Western Europe, a pattern that appears to be continuing in 1965. The success of the USSR in minimizing imports from the industrial West is reflected in the absence of gold sales. No Soviet gold has appeared on international bullion markets since June 1964, a situation that is unprecedented since the USSR began to sell gold on a large scale more than a decade ago.

A second factor in the Soviet financial picture is the estimated US \$500 million to US \$600 million still owed to the West as a result of past medium-term credits. This indebtedness helps to explain why Soviet foreign trade agencies have markedly reduced orders for Western machinery and equipment in recent years in spite of the availability of more than \$700 million in long-term credits. Since the end of 1964, only about \$200 million in new contracts involving long-term credits have been signed mostly for chemical plants.

The reduction in current and in planned future imports seems to be a reflection of a more conservative attitude on the part of the post-Khrushchev leadership. Having seen Soviet gold reserves reduced to a dangerous low, the leadership has been trying to rebuild its financial reserves and has been very cautious in committing itself to future outlays via long-term credits. In spite of this cautious policy it seems clear that the USSR will have to resume selling gold because of the new wheat purchases. It is doubtful that the USSR has been able to accumulate additional foreign exchange reserves as a result of its export surpluses with Western Europe because these accumulations have been used for purchases of grain and raw materials. Therefore, the burden for current and future grain purchases will have to fall to a great extent on the Soviet gold reserve. The potential increment to the gold stock of about US \$350 million in 1965 and 1966 will evidently be inadequate to finance the total grain purchases envisioned. Consequently, unless the USSR can achieve a substantial reduction in its imports, the Soviet gold reserve will fall to a new low.

Soviet Wheat Import Contracts a/
Crop Years, 1964/65 and 1965/66

<u>Date of Agreement</u>	<u>Exporting Country</u>	<u>Amount b/</u> <u>(Thousand Metric Tons)</u>
1964/65 crop year		
October 1964	Canada	290
January 1965	Canada	255
February 1965	Canada	122
February 1965	Australia	760
February 1965	France	250
March 1965	Canada	70
April 1965	Australia	610
April 1965	France	192
May 1965	Argentina	1,000
Total		<u>3,549 c/</u>
1965/66 crop year		
July 1965	France	300
August 1965	Canada	735
August 1965	Canada	5,090
August 1965	Argentina	1,100
Total (to date)		<u>7,225 d/</u>
Grand total		<u><u>10,774</u></u>

a. Some of this wheat is being shipped to Cuba and Eastern Europe on Soviet account. It is estimated that more than 1 million mt contracted for during the 1964/65 crop year will be delivered during the 1965/66 crop year.

b. Including flour converted to a grain equivalent on the basis of a 72-percent extraction rate.

c. Value estimated at about US \$200 million.

d. Value estimated at about US \$500 million.

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24 August 1965

MEMORANDUM FOR: Chief, Dissemination Control Branch, DD/CR
FROM : Acting Chief, Publications Staff, ORR
SUBJECT : Transmittal of Material

It is requested that the attached copies of CIA/RR CB 65-47, Recent Soviet Purchases of Canadian and Argentine Wheat, August 1965, Secret, Copies #217 - #230, be forwarded as follows:

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Attachments:

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CC: CGS/RB (with copy of report)

ACTION COMPLETED

The dissemination requested by
this memorandum has been completed.

BY: *MLB*

Date: *25 Aug 65*

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